

October 30, 1996

**TO THE BOARD OF DIRECTORS OF THE LEGAL SERVICES CORPORATION  
AND  
THE UNITED STATES CONGRESS**

This Semiannual Report (SAR) on the activities of the Office of Inspector General (OIG) of the Legal Services Corporation (LSC) covers the six-month period from April 1, 1996 through September 30, 1996. Section 5 of the Inspector General Act of 1978 requires that the Board of Directors, as the designated Federal entity head, transmit this report to the appropriate committees of Congress within 30 days, together with its report commenting on the contents of the SAR.

Edouard Quatrevaux  
Inspector General

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## INSPECTOR GENERAL'S MESSAGE

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In the Semiannual Report of September 1995, I stated that implementation of the Inspector General Act at the Legal Services Corporation had been completed. However, recent events have proved me wrong. The Board of Directors, the "entity head" for IG Act purposes, has questioned anew fundamental provisions of the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3, and the intent of Congress in establishing an independent Office of Inspector General at LSC.

At meetings on the last two days of this reporting period, the Board of Directors questioned the IG's general authority to establish operational and budget priorities and the following specific statutory authorities of the IG:

- \* authority to promulgate guidance for grantee audits, § 4(a)(1);<sup>1</sup>
- \* authority for OIG personnel matters, § 8G(g)(2);
- \* authority to procure contractual services, §§ 6(a)(9); 8G(g)(2);
- \* authority to conduct activities with respect to a matter relating to the promotion of economy and efficiency in the Federal legal services program, §§ 4(a)(3); and
- \* authority to coordinate relationships between LSC and Federal agencies, state and local governments, and non-governmental entities with respect to a matter relating to the promotion of economy and efficiency, § 4(a)(4).

I am hopeful that these disputes will be resolved satisfactorily, and will report their status in the next semiannual report or sooner as circumstances warrant.

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<sup>1</sup> In addition to the IG Act, LSC's fiscal year 1996 and 1997 appropriations statutes explicitly state that grantee audits will be conducted "in accordance with guidance established by the Office of Inspector General."

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# INTRODUCTION

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## **Corporate Structure**

The Board of Directors of the Corporation is composed of 11 members appointed by the President of the United States with the advice and consent of the Senate. The Board sets general policy and oversees the management of the Corporation. The Inspector General is appointed by and reports directly to the Board in its capacity as head of the entity. The Board also appoints the President of the Corporation, who serves as the principal management official of the Corporation.

## **Grant-Making Activities**

The Corporation is authorized by Congress to make grants and contracts to support the provision of civil legal assistance to clients who meet eligibility requirements. The Corporation makes more than 300 grants to entities that in turn provide legal assistance to indigent persons throughout the United States, Puerto Rico, the U.S. Virgin Islands, and Micronesia.

## **Office of Inspector General**

The Office of Inspector General (OIG) was established as an independent office pursuant to the 1988 amendments to the IG Act. Its statutory missions are to prevent and detect fraud and abuse, and to promote efficiency and effectiveness in the activities administered or funded by LSC. The OIG accomplishes its missions by conducting audits, investigations, inspections and program assessments, and by making recommendations for change to legislation and regulations.

## **Certification of Independence**

Inspector General operations in this period were free of personal or organizational impairment (see Inspector General's Message, page 1).

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# **PROGRAM INTEGRITY**

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## **IMPLEMENTATION OF COMPLIANCE MONITORING UNDER LSC'S FISCAL YEAR 1996 APPROPRIATIONS ACT**

LSC's fiscal year 1996 appropriations act required that routine on-site monitoring of grantee compliance with laws and regulations be accomplished through annual audits conducted in accordance with guidance established by the Office of Inspector General. The requirement is effective with audits of fiscal years beginning January 1, 1996, and the audits will be conducted January-April 1997. The appropriations act also established new restrictions and prohibitions relating to the types of cases that may be serviced by grant recipients.

### **Audit Guidance Authority Questioned**

The OIG developed a new Audit Guide to implement the requirements of the appropriations act and planned to publish it on October 2, 1996. At a meeting of the LSC Board of Directors on September 30, the Board questioned the OIG's authority to publish audit guidance without its approval. The Board requested a delay in the publication of the Audit Guide, requested the OIG to provide its view of applicable law, and scheduled a meeting for October 15, 1996. The published agenda for the meeting had two substantive items: the first was to "consider and act on whether the LSC Board of Directors has oversight responsibility for the adoption of revisions to LSC's Audit Guide," and the second was to "consider and act on revisions to LSC's Audit Guide." The meeting was canceled after receipt of OIG's written comments, and the Audit Guide was published by the OIG on October 22, 1996.

### **Compliance Supplement to the Audit Guide**

The Compliance Supplement to be issued with the Audit Guide has been expanded to include coverage of all the new restrictions and prohibitions on the types of cases that may be serviced by recipients and on the types of activities in which recipients may participate. The Compliance Supplement helps auditors who are unfamiliar with LSC-related laws and regulations in their examination, testing, and reporting on recipient compliance with the new restrictions and prohibitions.

### **Compliance Audits**

Two special audits of grantee compliance have been initiated. The first is a performance audit to determine through on-site review whether selected recipients have complied with the requirements of the 1996 appropriations act. The review will also assess whether recipients have divested prohibited cases as reported. In addition to case file reviews, the audit teams will seek information from third parties such as public housing authorities and social services agencies.

The OIG also will conduct a financial audit to determine whether selected recipients have developed alternative methods in which to continue participation in prohibited cases, or in restricted cases or activities. The audit will focus on whether LSC funds have been provided to individuals or organizations which engage in prohibited or restricted cases and activities.

## **AUDIT AND INSPECTION ACTIVITIES**

### **Status of Findings and Recommendations**

There are no open recommendations.

### **Inspection on the Usage of Government-Sponsored American Express Cards**

During this period, the OIG completed its inspection to determine the extent Government-Sponsored American Express credit cards had been used for purposes unrelated to official travel. The Final Inspection Report will be issued during the next reporting period.

### **Quality Assurance Reviews (QARs)**

The OIG completed six QARs during the period. In 1995, the OIG examined the audit work supporting the audit reports issued for three recipients in Pennsylvania. In 1996, the OIG re-examined the audit work relating to the original three recipient audit reports, and reviewed three additional audits to determine whether the firm had improved its performance with respect to the quality of the audit work. The QAR report noted some improvements but a number of deficiencies remained.

### **Recipient Financial Statement Audit Report Reviews**

Review of the December 31, 1995 recipient audit reports has been completed. The OIG reviewed 248 audit reports, of which 28% required additional communications with recipients and the auditors in order to obtain acceptable audit reports. Further, 29% of the audits received by the OIG were late, and three reports have yet to be received. Significant findings and recommendations have been referred to LSC management for review and initiation of corrective action.

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**STATISTICAL SUMMARY OF AUDIT ACTIVITY  
FOR THE PERIOD ENDING SEPTEMBER 30, 1996**

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**AUDIT REPORTS AND OTHER AUDIT-RELATED PROJECTS**

Open at beginning of reporting period	15
Opened during reporting period	10
Closed during reporting period	<10>
Open at the end of the reporting period	15

**RECOMMENDATIONS**

Pending beginning of reporting period	3
Reported during reporting period	0
Closed during reporting period	3
Recommendations pending as of March 31, 1996	0

**QUALITY ASSURANCE REVIEWS (QARs)**

QARs Performed	6
Audits Acceptable (met standards)	0
Audits Referred for Disciplinary Action (substandard)	0
Reports Pending	0
Reports Closed	<u>6</u>
Reports remaining at end of period	0

## **INVESTIGATIVE ACTIVITIES**

During this period, 32 cases were opened and 29 were closed. The majority of the cases resulted from information on losses (thefts and burglaries) provided by grantees in accordance with grant assurances. The remaining cases were opened as a result of information obtained from other sources, including internal sources, referrals from LSC offices, and calls or letters to the OIG Hotline. The Hotline was contacted 40 times and resulted in one case.

There were no cases referred for prosecution this period. A previously referred case remains under consideration. Another previously referred case resulted in the issuance of a bench warrant for failure to appear in court and is pending prosecution.

An OIG investigation into the embezzlement of approximately \$30,000 of grantee funds by the former controller of a recipient in California resulted in a conviction for violation of one count under 18 U.S.C. § 666, theft or bribery concerning programs receiving Federal funds. The former controller was sentenced to three years probation and paid a special assessment fee of \$50.00. The former controller also agreed to make restitution to the grantee in the amount of \$21,121.93.

An OIG investigation into the alleged theft of approximately \$25,000 by a former Executive Director and attorney of a grantee in California, which had been declined previously for prosecution, remains under review by the State Bar Association of Colorado for possible ethical violations.

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**STATISTICAL SUMMARY OF INVESTIGATIVE ACTIVITY FOR THE  
PERIOD ENDING SEPTEMBER 30, 1996**

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**INVESTIGATIVE CASELOAD**

Investigations Open as April 1, 1996	24
Investigations Opened this reporting period	32
Investigations Closed this reporting period	<29>
Total Investigations in progress of September 30, 1996	27

**CATEGORIES OF INVESTIGATIONS OPENED**

Internal (Relating to LSC)	11
External (Relating to LSC Grantee)	21

**RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION**

Reported during this reporting period	2
Pending from previous period	1
Closed during this period	1

**PROSECUTIVE ACTIVITIES**

Referred for prosecution this reporting period	0
Prosecution Declined	0
Pending Action	2
Convictions	1

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## LEGISLATIVE AND REGULATORY REVIEW

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### **Legislative Review**

The OIG reviewed several proposed legislative bills relating to LSC during this reporting period. No written comments were provided to Congress.

### **Regulatory Review**

During this period, the Corporation worked to develop new and revised regulations to institute changes mandated by LSC's fiscal year 1996 appropriation act, especially new restrictions placed by Congress on the activities of the recipients of LSC funds. The OIG assisted in this process through written comments to management on successive drafts of 15 proposed regulations, meetings with management, and, in limited instances, written memoranda to the Board of Directors or a Board committee. OIG comments consisted mainly of suggestions to enhance effectiveness of the regulations through the use of clear and concise language, suggestions to improve the extent to which the regulations implement the apparent intent of Congress, and suggestions to facilitate the monitoring of compliance by LSC recipients through annual financial and compliance audits.

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# PROGRAM ASSESSMENT

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## **Review of Technology**

The OIG issued a report, *Increasing Legal Services Delivery Capacity Through Information Technology*, which concluded that information technology could vastly increase the number of clients served each year by LSC grantees. The report identified public access terminals, the Internet, and legal assistance helpline/intake systems as technology applications, each of which could more than double the number of clients served.

The report also outlined a process for achieving the potential of these technologies. The process begins with proof of concept evaluations conducted by the OIG to obtain cost and operational effectiveness information for use by management in developing plans for their introduction into the legal services delivery system. The first concept evaluation planned would use the Internet and public access terminals to deliver legal assistance and information to victims of domestic violence, including the production of petitions for protective orders. Preliminary work on this project has begun.

## **Information Systems Development**

The OIG began development of the OIG Audit Information Management System (AIMS) which is scheduled to be completed in the next semi-annual period. AIMS will track and record audit findings reported and issued by Independent Public Accountants, the OIG, and GAO. In addition, progress in audit resolution and corrective action plans will be tracked and monitored by AIMS.

## **Home Page on the Internet**

The OIG has established a home page on the Internet. The purpose of this site is to make information available to recipients, auditors and members of the public. The home page makes two-way communication with the OIG more convenient by publicizing existing methods of communication with the OIG and making it easier to send electronic mail to the OIG.

**TABLE I**

**Audit Reports Issued with Questioned Costs  
for the Period Ending September 30, 1996**

	NUMBER REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the reporting period.	1	\$6,557	\$0
B. Reports issued during the reporting period	0	\$0	\$0
Subtotals (A + B)	1	\$6,557	\$0
<b>LESS:</b>			
C. For which a management decision was made during the reporting period:	1	\$6,557	\$0
(I) dollar value of recommendations that were agreed to by management	1	\$2,254	\$0
(II) dollar value of recommendations that were not agreed to by management	1	\$4,303	\$0
D. For which no management decision had been made by the end of the reporting period	0	\$0	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

**TABLE II**

**Audit Reports Issued with Funds to be Put to Better Use  
for the Period Ending September 30, 1996**

	NUMBER REPORTS	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	\$0
B. Reports issued during the reporting period	0	\$0
Subtotals (A + B)	0	\$0
<b>LESS:</b>		
C. For which a management decision was made during the reporting period:	0	\$0
(I) dollar value of recommendations that were agreed to by management	0	\$0
(II) dollar value of recommendations that were not agreed to by management	0	\$0
D. For which no management decision had been made by the end of the reporting period	0	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0

**TABLE III**

Index to Reporting Requirements  
of the Inspector General

<b>IG Act*** Reference</b>	<b>REPORTING REQUIREMENT</b>	<b>PAGE</b>
Section 4(a)(2)	Review of legislation and regulations	8
Section 5(a)(1)	Significant problems, abuses, and deficiencies	1
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	None
Section 5(a)(4)	Matters referred to prosecutive authorities	None
Section 5(a)(5)	Summary of instances where information was refused	None
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and funds to be put to better use	4
Section 5(a)(7)	Summary of each particularly significant report	4
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	10
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	11
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period	None
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None

\*\*\*Refers to sections in the Inspector General Act of 1978, as amended.